

Message Text

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PAGE 01 ISLAMA 03027 290656Z

12

ACTION NEA-12

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 3982

UNCLAS ISLAMABAD 3027

E.O. 11652 N/A

TAGS: EFIN, EAID, IBRD, PK

SUBJ: LONG-TERM DEBT RESCHEDULING

REF: (A) ISLAMABAD 2842 (B) ISLAMABAD 2930

1. PAKISTAN TIMES MARCH 29 PUBLISHED FOLLOWING FRONT-PAGE ARTICLE BY ASLAM SHEIKH ON EXTERNAL DEBT PROBLEM, REPORTING THAT SENIOR GOP OFFICIALS WILL SHORTLY COMMENCE INTENSIVE CONSULTATIONS IN CONSORTIUM CAPITALS.

2. "PAKISTAN'S PROTRACTED NEGOTIATIONS FOR A LONG-TERM RESCHEDULING OF ITS HUGE EXTERNAL DEBT WILL ENTER A FINAL BUT CRUCIAL PHASE EARLY NEXT MONTH. TWO TEAMS OF SENIOR OFFICIALS ARE TO CONDUCT THIS NEW ROUND OF INTENSIVE CONSULTATIONS IN THE RESPECTIVE CAPITALS OF CREDITOR COUNTRIES COMPRISING THE WESTERN CONSORTIUM.

"THIS ROUND OF BILATERAL TALKS IS A SEQUEL TO THE RECENT DISCUSSIONS HELD HERE WITH A REPRESENTATIVE OF THE WORLD. PAKISTAN'S PLEA IS THAT THE PROPOSALS HE BROUGHT HERE AS AN INFORMAL CONSENSUS OF THE CONSORTIUM COUNTRIES FELL FAR SHORT OF ISLAMABAD'S EXPECTATIONS. PAKISTAN'S COUNTER PROPOSALS WILL OBVIOUSLY NOW PROVIDE THE BASIS

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PAGE 02 ISLAMA 03027 290656Z

FOR THE NEW ROUND OF TALKS BEGINNING NEXT WEEK. THE FINAL

SETTLEMENT WILL HAVE TO GO BEFORE A FULL-FLEDGED MEETING OF THE CONSORTIUM SCHEDULED TO BE HELD IN MAY THIS YEAR.

"PAKISTAN'S CASE FOR A SATISFACTORY LONG-TERM DEBT RELIEF ON THE LINES AFFORDED TO INDONESIA TO TIDE OVER ITS BALANCE OF PAYMENTS DIFFICULTIES HAS BEEN PENDING SINCE 1970. THE SHORT-TERM RELIEF CONCEDED BY THE CREDITORS AFTER PAKISTAN WAS FORCED TO APPLY UNILATERAL MORATORIUM IN MAY 1971, IS NOW DUE TO EXPIRE IN JUNE THIS YEAR. UNLESS A LONG-TERM SETTLEMENT EMERGES BEFORE THAT, PAKISTAN WILL BE CONFRONTED WITH A STAGGERING DEBT SERVICING BURDEN AMOUNTING TO WELL OVER 30 PERCENT OF ITS ANNUAL FOREIGN EXCHANGE EARNINGS. THE NEED FOR SUBSTANTIAL RELIEF HAS ACQUIRED NEW URGENCY FOR PAKISTAN FOLLOWING A BIG JUMP IN ITS EXPENDITURE ON OIL IMPORTS -- EXPECTED TO RISE TO MORE THAN 300 MILLION DOLLARS BY THE END OF THE CURRENT CALENDAR YEAR.

"THE TOTAL DEBIT LIABILITY (IN ARRANGEMENTS WITH THE CONSORTIUM) OF UNDIVIDED PAKISTAN BY THE END OF 1971 IS AROUND 3.6 BILLION DOLLARS. OF THIS WEST PAKISTAN HAS OWNED 2.4 BILLION DOLLARS. OF THE REMAINING 1.2 BILLION DOLLAR DEBT, BANGLADESH STILL APPARENTLY REFUSES TO OWN TWO-THIRDS AMOUNT DISBURSED AS COMMODITY LOANS. IN THE FINAL SETTLEMENT, PAKISTAN WILL HAVE TO ENSURE THAT IT WILL NOT BE REQUIRED TO CARRY THIS BURDEN.

"APART FROM THIS ASPECT, ISLAMABAD IS PRESSING HARD, FOR ADEQUATE RELIEF ON THE DEBT SOLELY RELATING TO WEST PAKISTAN TO SPARE ITS ECONOMY THE CRIPPLING BURDEN OF DEBT SERVICING FROM NEXT YEAR ONWARD. FOR EXAMPLE, ONE EXPERT STUDY REVEALS THAT EVEN AFTER THE SEPARATION OF EAST PAKISTAN'S SHARE OF LIABILITY, PAKISTAN'S ANNUAL DEBT SERVICING RATIO TO ITS GROSS NATIONAL PRODUCT WILL BE HIGHEST IN THE WORLD. PAKISTAN'S PLEA IS THAT THE RESCHEDULING CONCESSION OF THE TYPE GIVEN TO INDONESIA WAS ESSENTIAL IF ISLAMABAD'S ANNUAL DEBT SERVICING LIABILITY IS TO BE KEPT BELOW 20 PERCENT OF ITS FOREIGN EXCHANGE EARNING UP TO THE END OF THE SEVENTEES."

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PAGE 03 ISLAMA 03027 290656Z

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